

Economics – Chapter 11 – Taxes, Deficits, Surpluses, and the Public Debt

1. **Personal Income Tax** – the tax a person pays on his or her taxable income
2. **Taxable Income** – total income minus exemptions
3. **Corporate Income Tax** – the tax that corporations pay on their profits
4. **Social Security Tax** – a tax that is “deposited” for social security benefits after retirement. The employer matches every dollar paid by the employee.
5. **Progressive Income Tax** – an income tax system in which one's tax rate rises as one's taxable income rises. The US currently uses this structure.
6. **Proportional Income Tax** – an income tax system in which one's tax rate is the same no matter what one's taxable income
7. **Regressive Income Tax** – an income tax system in which one's tax rate declines as one's taxable income rises
8. Due to tax brackets, people sometimes purposely take investment losses to lower their income into the lower bracket
9. **National Consumption Tax** – a sales tax, except it's national instead of statewide
10. **Value Added Tax** – a multistage tax that is collected from corporations at each stage in the production and distribution process. For example, if company A makes a product, sells to company B for \$700, company A pays tax on \$700, the value of the product. Company B then sells the product to company C for \$1000. However, company B only pays tax on \$300, because it sold it for \$1000, but paid \$700 to obtain it, hence the actual value is only \$300.
11. The government spends tax money on defense, income security (unemployment, welfare, etc.), health care, Medicare, social security payments, interest on the deficit, etc.
12. **Mandatory Spending** – spending that is not subject to annual Congressional review
13. **Discretionary Spending** – spending that is subject to annual review
14. **Public debt** – the total amount the federal government owes its creditors
15. **Nominal Budget Deficit** – the amount of money the US owes in a single year
16. **Cyclical Deficit** – the part of the deficit that is a result of a downturn in economic activity
17. **Structural deficit** – the part of the deficit that would exist even if the economy were operating at full employment
18. **Total Deficit = Structural Deficit + Cyclical deficit**
19. Real Budget Deficit VS Nominal Budget Deficit – the Real Deficit is the nominal adjusted for inflation
$$\text{Real Budget Deficit} = \text{Nominal Budget Deficit} - (\text{Public Debt} * \text{Inflation Rate})$$
20. The United States owes about 5.5 trillion, and the lowest deficit in history was in 1835, 33.7 million
21. Some argue that the current generation carries the burden of the debt, while other argue it's the future generations
22. If the government spends more, taxes must increase in order to not increase the debt, so people would save more in order to pay for the tax hikes, hence, bearing the burden of the debt
23. However, others argue that people will not save, because it takes time for the government to implement plans and raise taxes, and most will not live to see it, hence their children are the ones paying the higher taxes, hence bearing the burden of the debt
24. **Budget Surpluses** – the first budget surplus in a long time was in 1998. Economist debate whether to spend the surplus on Social Security (it's going bankrupt), lowering the national debt, or lowering taxes. After Bush took office, he decided to lower taxes, hence the huge tax cut plan.
25. **Social Security** – the employee pays a certain percentage to Social Security, and the employer matches, doubling the amount. Medicare is a health care program for old age. People also pay a disability tax, in case they become disabled, the government will subsidize them. However, now, there are too many old citizens, and not enough young workers, hence social security is on the verge of going bankrupt